Interim Report
1 January 2018 – 31 March 2018

Cantargia AB | 556791-6019

“Cantargia” refers to Cantargia AB (publ), corporate ID number 556791-6019.

A strong start to 2018

Financial information

First quarter (1 Jan 2018 – 31 Mar 2018)

- Net sales, kSEK 0 (0).
- Operating loss, kSEK -15,250 (-18,415).
- Loss after tax for the period, kSEK -13,699 (-18,402).
- Earnings per share, before and after dilution, SEK -0.21 (-0.65).
- Equity/assets ratio, 92 (89) per cent.
- Cash and cash equivalents, kSEK 80,581 (63,736).
- Short-term investments, kSEK 160,000 (20,000).

Operations

Significant events in the first quarter

In January 2018, the United States Patent and Trademark Office (USPTO) notified Cantargia that it had issued a Notice of Allowance for the company’s second, follow-up patent application, no. 15/196,795, in the solid tumours patent family. In the same patent family, Cantargia also received formal approval for a patent application in China. The approved patent has the number ZL201280014136.7. In February, the USPTO issued a Notice of Allowance for the company’s second, follow-up patent application, no. 15/196,795, in the hematological cancer family.

In 2016, a third party filed oppositions to two of Cantargia’s patents in Europe. One of the patents relates to IL1RAP as target molecule for treatment of hematological cancer while the other relates to solid tumours. In January this year, the European Patent Office decided that both patents should remain in force.

Cantargia’s Nominating Committee for the Annual General Meeting 2018 has been appointed and consists of Claus Andersson (Sunstone Life Science Ventures), Mats Larsson (First AP Fund) and Jannis Kitsakis (Fourth AP Fund).

During the period, Lund University Bioscience AB, one of Cantargia’s previous owners, decided to distribute its holding in Cantargia to the shareholders of Lund University Bioscience AB.

In March, it was announced that antibody treatment of IL1RAP signalling had been found to reduce metastases in an experimental cancer model. The results point to a new mechanism for preventing the spread of metastases and will be presented at the AACR scientific conference in April 2018.

Significant events after the end of the period

In April, Cantargia presented data concerning blocking of metastases using antibodies against IL1RAP at the 2018 Annual Meeting of the American Association for Cancer Research (AACR) in Chicago, USA. The results show that targeted treatment with an antibody aimed at IL1RAP can, in addition to stimulating the killing of tumour cells and blocking their response to IL-1, block metastasis by affecting the tumour’s microenvironment. The poster is published on the company’s website.

Other events

During the period, Cantargia’s CEO, Göran Forsberg, presented the company at several investor presentations, which are described at www.cantargia.com.

CEO Göran Forsberg comments

Cantargia continued to make progress in 2018. After the successful financing that was completed around year-end, Cantargia is financially well equipped to focus on continued development. We have bold plans for 2018 and 2019 that are now fully financed.

One of the highlights of the period was the new data that we obtained, which show that our main project and drug candidate, CAN04, not only has the ability to attack tumour cells directly, but also has the potential to attack other cells which protect the tumour in its immediate environment. In our experimental models, we have shown that CAN04 sharply reduces the tumour's ability to spread by metastasis. These data were recently presented at AACR and have generated considerable interest. The data are also important for the ongoing clinical trials of CAN04 and strengthen our confidence in the project. We are currently at the clinical phase 1 stage, which means that our main objective is to study safety during treatment. The trial is proceeding according to the timetable and it will therefore soon be time for the next stage, phase IIa, where we will also be studying CAN04 in combination with other, established cancer drugs.

We have also further strengthened our patent portfolio. Over the past year, we have been involved in a process in which a third party chose to appeal our patents relating to the IL1RAP target molecule. It is not surprising that competitors should choose such an approach. The end result was a success for Cantargia after the European Patent Office reviewed Cantargia's patents and concluded that they should remain in force. We were also notified that the U.S. Patent and Trademark Office intends to broaden the protection for these two patents, which means that we now have protection in the United States for a very large number of cancer forms in solid tumours as well as leukemia.

We face exciting opportunities in the near future, and I feel very enthusiastic about the next steps in Cantargia's development.

Göran Forsberg
CEO, Cantargia AB

Operations and projects

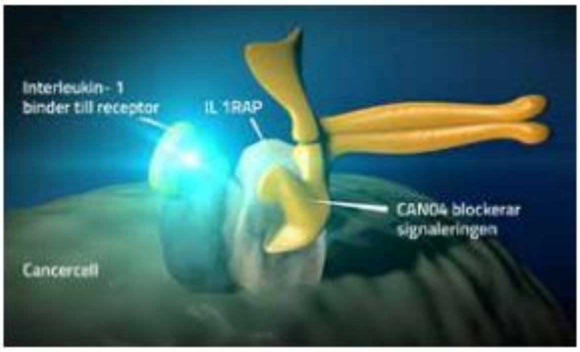
Established in 2010 and listed on the stock exchange in 2015, Cantargia is a biotechnology company that is engaged in research and development of antibody-based therapies for serious diseases. The company has specialised in antibody-based treatment aimed at the target molecule Interleukin-1 Receptor Accessory Protein ("IL1RAP"), which has the potential to be used against a number of different forms of cancer as well as for autoimmune and inflammatory diseases. In its most advanced project, Cantargia is developing the CAN04 antibody, which is double-acting. This means that it fights cancer both by activating the immune system and by blocking signals that drive tumour growth.

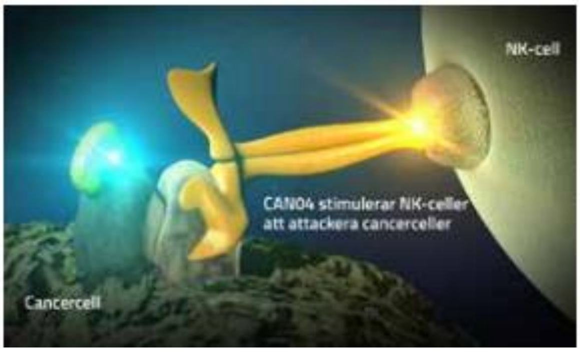
The original discovery made by the research team behind Cantargia was that the specific target molecule, IL1RAP, was found on cancer cells from patients with leukemia but not on normal stem cells in the bone marrow. In subsequent research, Cantargia has shown that IL1RAP is also expressed on cancer cells in a large number of cancer diseases.

Cantargia's CAN04 antibody is being studied in the CANFOUR clinical phase I/IIa study. In the second project, CANxx, new antibodies against IL1RAP are being developed that are designed for treatment of autoimmune and inflammatory diseases with the objective of selecting a product candidate in 2019. That project is being conducted in partnership with Panorama Research Inc. in California.

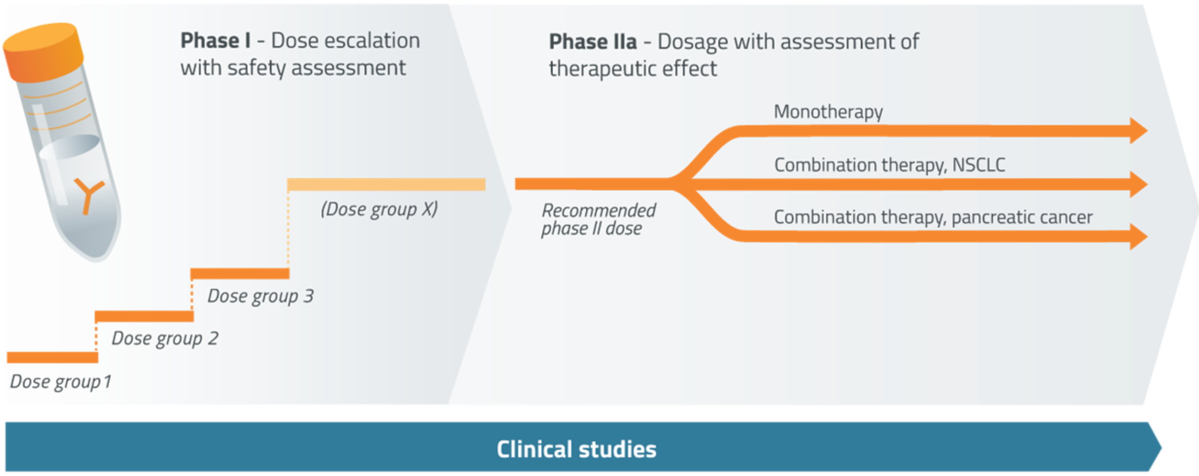
CAN04: Cantargia's product candidate for cancer treatment

Cantargia's CAN04 antibody treatment fights cancer both by activating the immune system's killer cells (illus. 2 below) and by blocking signals which stimulate tumour growth (illus.1 below). CAN04 is designed to block the cancer cell's signalling via the interleukin-1 system, which can limit the inflammation that the tumour uses for growth and as a defensive strategy. CAN04 thus has a double-acting effect against cancer. New data have now been generated which show that CAN04 can suppress metastasis. These data were recently presented at AACR and are available at www.cantargia.com.





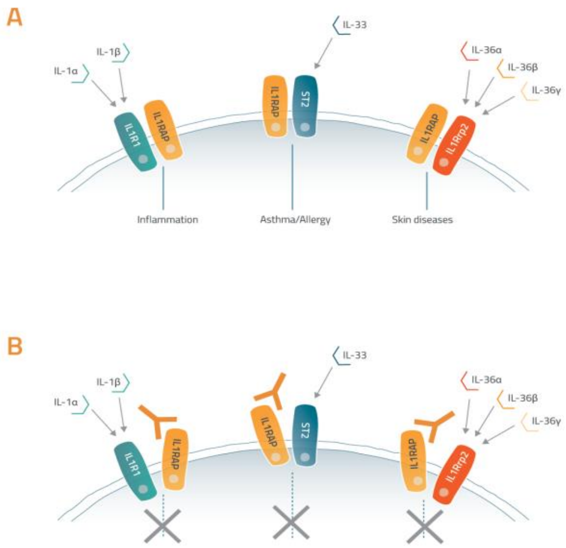
The IL1RAP molecule, the target for Cantargia's treatment, is found in most common forms of cancer, which means that there is significant treatment potential for different cancer diseases. While the CAN04 antibody could thus potentially be used for treating several different forms of cancer, in its initial development activities Cantargia has focused on non-small cell lung cancer and pancreatic cancer in its CANFOUR phase I/IIa study. In the initial stage (phase I) of the study, CAN04 is being given to a limited number of patients with the aim of gradually increasing the dose and studying the safety profile of the drug and its metabolism in the body, in order to determine an appropriate dose to use in the second stage. In the second stage of the study (phase IIa), CAN04 will be given to a larger number of patients in order to evaluate indications of therapeutic effect and to gather more information on the safety of the drug at the chosen dose. CAN04 will be studied both as an individual drug and in combination with the standard treatment for each indication.



Cantargia's initial clinical phase I/IIa study covers both monotherapy and combination therapy, where CAN04 is combined with the existing standard treatments for non-small cell lung cancer and pancreatic cancer. This will result in additional data, which will accelerate the overall development of CAN04. An initial presentation of phase I data is expected to be made around one year after the start of the study.

CANxx: Developing product candidates for autoimmunity and inflammation

CAN04, Cantargia's first product candidate, has been designed for treatment of various forms of cancer. Yet Cantargia's platform offers the potential to develop further antibodies against the IL1RAP target molecule that are designed to treat additional, life-threatening diseases. Cantargia is currently working on developing new antibodies that are designed for treatment of autoimmune and inflammatory diseases.



The company's new project, CANxx, is aimed at developing an antibody with properties that are optimised for treatment of autoimmune and inflammatory diseases. Viewed from a functional biological perspective, IL1RAP transfers signals from the cytokines IL-1 and IL-33, which play a role in several serious autoimmune and inflammatory diseases.

The CANxx project was launched in 2017 with the objective of identifying a clinical candidate that can move on to the development phase in 2019. By launching a new project targeting a disease segment that supplements CAN04, Cantargia will diversify its activities and obtain a favourable risk spread in its project portfolio. The project is being conducted in partnership with Panorama Research Inc. in California. Panorama is contributing by conducting the early stages of the development at its own expense in exchange for a share of future revenues.

Financial information

Income
The company had no income in the first quarter of 2018.

Earnings
The company reports an after-tax loss for the first quarter of kSEK -13,699 (-18,402).

The loss is essentially related to the company's costs for developing its CAN04 and CANxx product candidates. Project costs in the first quarter were kSEK -11,004 (-15,660).

In the first quarter, other external expenses were kSEK -2,313 (-1,229) and staff costs were kSEK -1,835 (-1,847). Other operating expenses, which comprise foreign exchange differences on trade payables, were kSEK -97 (-).

Net financial income/expense consists largely of foreign exchange differences on currency accounts. A stronger euro resulted in net financial income of kSEK 1,551 (13).

Financial position
The equity/assets ratio at 31 March 2018 was 92 (89) per cent and equity was kSEK 232,421 (78,612). The company's cash and cash equivalents, which consist of cash and available deposits with banks and other credit institutions, were kSEK 80,581 (63,736) at the balance sheet date. In addition to cash and cash equivalents, the company has short-term investments with banks and in fixed income funds in a total amount of kSEK 160,000 (20,000). The increase in cash and cash equivalents and short-term investments is wholly related to the share offerings that were completed in 2017. Total assets at the end of the period were kSEK 251,475 (88,204).

Cash flow and investments
Cash flow from operating activities for the first quarter was kSEK -29,199 (-17,789). Cash flow from investing activities, which refers to the change in short-term investments, was kSEK -40,000 (-11,358). The total change in cash and cash equivalents for the three-month period was negative, kSEK -69,200 (37,832).

Other information

Related party transactions
Cantargia has a research agreement with Lund University, where Thoas Fioretos, one of Cantargia's founders and a Director of Cantargia, is engaged in research. Under the agreement, Thoas Fioretos has undertaken, as part of his employment at Lund University, to conduct projects which are aimed at obtaining more knowledge about IL1RAP. Cantargia has the right under the agreement to use and, where applicable, take over any and all research results from the two projects at no cost. In the first quarter of 2018, the company made no payments to Lund University under the agreement.

Since May 2017, Cantargia has had a consulting agreement with Jöndell Consulting AB, a company that is wholly owned by the company's CFO. The CFO is not employed by Cantargia but works on a consultancy basis in accordance with the agreement. In 2018, Cantargia paid approximately SEK 0.5 million for the consulting services provided.

The Board considers that the above agreements have been concluded on commercial terms.

Employees
The average number of employees for the period January to March 2018 was 5 (5), of whom 2 (2) were women. Cantargia operates to a large extent through external partners.

Share information
Cantargia's shares were listed on Nasdaq Stockholm First North on 17 March 2015, under the ticker "CANTA". At 31 March 2018, the number of shares was 66,185,811 (32,075,508). Total outstanding stock options on the

closing date comprise 85,000 warrants, which entitle the holder to subscribe for 85,000 shares in accordance with the conditions described in the Annual Report for 2017.

Outlook for 2018

Cantargia's goal is to develop, patent and document pharmaceutical product candidates that can be used in the treatment of life threatening diseases. The plan is to sell or outlicence such pharmaceutical candidates to companies acting within Cantargia's area. The goal for 2018 is to continue the clinical study CANFOUR, inititated during 2017, with focus on treatment of non-small cell lung cancer and pancreatic cancer. Additional preclinical studies will be performed to support the clinical development of the main project CAN04 as well as to advance the company's second project, CANxx.

Financial calendar

- Interim report 2 — 21 August 2018
- Interim report 3 — 15 November 2018
- Year-end report for 2018 — 27 February 2019

Interim reports and the annual report are available at www.cantargia.com .

Annual General Meeting 2018

The Annual General Meeting of Cantargia will be held at Medicon Village, Scheelevägen 2 in Lund on 31 May, at 4 p.m.

Principles for preparation of the interim report

See Note 1.

Transition to RFR 2 in the interim report

See Note 2.

Critical judgements and estimates

See Note 3.

Key performance indicators, definitions

- Operating profit/loss: Net sales less total operating expenses.
- Earnings per share: Profit/loss for the period divided by average number of shares for the period.
- Equity/assets ratio: Equity divided by total capital.

Certified Adviser

Sedermera Fondkommission is Cantargia's Certified Adviser.

Examination by auditors

The interim report has not been examined by Cantargia's auditors.

General information

Cantargia is a limited company with registered office in the municipality of Lund, Sweden. The address is Medicon Village, Scheelevägen 2, SE-223 81 Lund, Sweden.

Submission of interim report

Lund, 15 May 2018
Cantargia AB
The Board of Directors

For further information, please contact:

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STATEMENT OF COMPREHENSIVE INCOME

(kSEK)	2018 Jan-Mar	2017 Jan-Mar	2017 Jan-Dec
Operating income			
Net sales	-	-	-
Other operating income	-	321	-
Operating expenses			
Project costs	-11 004	-15 660	-44 819
Other external expenses	-2 313	-1 229	-6 917
Personnel expenses	-1 835	-1 847	-8 064
Other operating expenses	-97	-	-210
	-15 250	**-18 736**	**-60 009**
Operating profit	**-15 250**	**-18 415**	**-60 009**
Financial income and expense			
Interest income and similar items	1 551	16	86
Interest expense and similar items	-	-3	-329
	1 551	**13**	**-243**
Profit before taxes	**-13 699**	**-18 402**	**-60 253**
Loss for the period *)	**-13 699**	**-18 402**	**-60 253**
Earnings per share before and after dilution (SEK) based on average number of shares	-0,21	-0,65	-1,86

*) No items are reported in other comprehensive income, meaning total comprehensive income is consistent with the loss for the year.

BALANCE SHEET

(kSEK)	31-03-2018	31-03-2017	31-12-2017
ASSETS			
Fixed assets			
Financial assets			
Other securities held as non-current asset	2 957	2 957	2 957
	2 957	2 957	2 957
Total fixed assets	2 957	2 957	2 957
Current assets			
Other receivables	731	905	1 345
Prepaid expenses and accrued income	7 206	606	370
	7 937	1 511	1 715
Short-term investments			
Other short-term investments	160 000	20 000	120 000
	160 000	20 000	120 000
Cash and bank balances			
Cash and bank balances	80 581	63 736	149 781
	80 581	63 736	149 781
Total current assets	248 518	85 247	271 496
TOTAL ASSETS	251 475	88 204	274 453
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	5 295	2 566	3 755
Share capital not yet registered	72	-	1 612
	5 367	2 566	5 367
Non-restricted equity			
Share premium account	390 608	184 050	390 608
Retained earnings	-149 855	-89 602	-89 602
Loss for the period	-13 699	-18 402	-60 253
	227 054	76 046	240 753
Total equity	232 421	78 612	246 120
Short-term liabilities			
Trade payables	14 001	7 262	20 619
Tax liabilities	131	138	377
Other liabilities	441	444	221
Accrued expenses and deferred income	4 481	1 748	7 117
	19 054	9 592	28 333
TOTAL EQUITY AND LIABILITIES	251 475	88 204	274 453

STATEMENT OF CHANGES IN EQUITY

	Restricted equity		Non-restricted equity		Total
(kSEK)	Share capital	Paid not registered share capital	Share premium account	Retained earnings incl Loss for the year	Total equity
Opening balance 1 January 2018	3 755	1 612	390 608	-149 855	246 120
Loss for the period	-	-	-	-13 699	-13 699
Transactions with shareholders					
Warrant programme	-	-	-	-	-
Issue of new shares for the year	1 540	-1 540	-	-	-
Capital acquisition cost	-	-	-	-	-
	1 540	-1 540	-	-	-
Closing balance 31 March 2018	5 295	72	390 608	-163 554	232 421
Opening balance 1 January 2017	1 673	-	117 964	-89 602	30 035
Loss for the period	-	-	-	-18 402	-18 402
Transactions with shareholders					
Issue of new shares for the year	893	-	71 636	-	72 529
Capital acquisition cost	-	-	-5 550	-	-5 550
	893	-	66 086	-	66 979
Closing balance 31 March 2017	2 566	-	184 050	-108 004	78 612
Opening balance 1 January 2017	1 673	-	117 964	-89 602	30 035
Loss for the period	-	-	-	-60 253	-60 253
Transactions with shareholders					
Warrant programme	-	72	-	-	72
Issue of new shares for the year	2 082	1 540	300 857	-	304 479
Capital acquisition cost	-	-	-28 213	-	-28 213
	2 082	1 612	272 644	-	276 338
Closing balance 31 December 2017	3 755	1 612	390 608	-149 855	246 120

STATEMENT OF CASH FLOWS

(kSEK)	2018 Jan-Mar	2017 Jan-Mar	2017 Jan-Dec
Operating activities			
Operating loss	-15 250	-18 415	-60 009
Interest received etc.	1 551	16	86
Interest paid etc.	-	-3	-329
Cash flow from operating activities before changes in working capital	**-13 699**	**-18 402**	**-60 253**
Changes in working capital			
Change in receivables	-6 222	701	497
Change in trade payables	-6 618	-157	13 200
Changes in other current liabilities	-2 662	69	5 453
	-15 501	**613**	**19 150**
Cash flow from operating activities	**-29 199**	**-17 789**	**-41 103**
Investing activities			
Acquisition of consessions, patents, licences, etc.	-	-	-
Acquisition of other long-term securities	-	-295	-295
Change in other short-term investments	-40 000	-11 063	-111 063
	-40 000	**-11 358**	**-111 358**
Financing activities			
Issue of new shares for the year	-	72 529	304 479
Capital acquisition cost	-	-5 550	-28 213
Warrant programme	-	-	72
	-	**66 979**	**276 338**
Change in cash and cash equivalents	-69 200	37 832	123 877
Cash and cash equivalents at beginning of year	149 781	25 904	25 904
Cash and cash equivalents at end of year *)	**80 581**	**63 736**	**149 781**

*) The company's cash and cash equivalents consist of cash and disposable balances with banks and other credit institutions

Note 1 Summary of significant accounting policies
Significant accounting policies applied in preparing this interim report are described in the following. Unless otherwise stated, these policies have been applied consistently for all the periods presented.

Basis of preparation of financial statements
This interim report for Cantargia AB ("Cantargia") has been prepared in accordance with the Swedish Annual Accounts Act, Recommendation RFR 2 *Financial Reporting for Legal Entities* of the Swedish Financial Reporting Board and IAS 34 *Interim Financial Reporting*. RFR 2 states that a legal entity is required to apply the International Financial Reporting Standards (IFRS), as adopted by the EU, insofar as this is possible under the Swedish Annual Accounts Act and Pension Obligations Vesting Act and with regard to the relationship between accounting and taxation. The recommendation specifies the exemptions from and the additional disclosures that are required in relation to IFRS.

The interim report has been prepared using the cost method.

The interim report for the fourth quarter 2017 is Cantargia's first report to be prepared in accordance with the Swedish Annual Accounts Act and RFR 2. Cantargia has previously applied the Annual Accounts Act and General Recommendation BFNAR 2012:1 *Annual Accounts and Consolidated Financial Statements* (K3) of the Swedish Accounting Standards Board. Historical financial information has been restated as of 1 January 2016, which is the date of transition to RFR 2.

Explanations concerning the transition from the previously applied accounting policies to RFR 2 and a description of the effects of the restatement on the closing balance as at 31 March 2017, and on comprehensive income for the first quarter of 2017 are provided in Note 2.

The preparation of financial statements in compliance with the applied regulations requires the use of critical accounting estimates. Management is also required to make certain judgements in applying the company's accounting policies. Areas which involve a high degree of judgement, are complex or where assumptions and estimates have a material impact on the interim report are described in Note 3.

Changes to accounting policies and disclosures

New standards and interpretations which have not yet been applied by the Group
A number of new standards and interpretations will become effective for financial years beginning after 1 January 2018 and have been applied in preparing these financial statements. The following is a preliminary assessment of the effects of these standards:

IFRS 9 Financial Instruments deals with the classification, measurement and recognition of financial assets and liabilities. It replaces those parts of IAS 39 which relate to the classification and measurement of financial instruments. Cantargia will not be affected by the new rules for classification and measurement, as the company applies the exemption in RFR 2, under which financial instruments may be recognised and measured based on cost in accordance with the Annual Accounts Act. Cantargia is not yet generating any income and thus has essentially no trade receivables. Cantargia's assessment is therefore that the company will not be affected by the new impairment model at the transition date, 1 January 2018. The standard is applicable for financial years beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers regulates the accounting treatment of revenue. The principles on which IFRS 15 is based are intended to give users of financial statements additional valuable information about a company's revenue. Cantargia is not yet generating any revenue and therefore does not expect to be affected by the transition to the new revenue recognition standard when it takes effect on 1 January 2018. The standard is applicable for financial years beginning on or after 1 January 2018.

IFRS 16 Leases will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities attributable to all leases, with a few exceptions, be recognised in the balance sheet. The standard is applicable for financial years beginning on or after 1 January 2019. Early application is permitted. Cantargia does not expect that it will be affected by the new lease standard, as the company is likely to apply the exemption from IFRS 16 in RFR 2 and will continue to account for all leases in accordance with a model that is similar to the model for operating leases in IAS 17, i.e. lease payments will be expensed on a straight-line basis over the term of the lease.

No other IFRS or IFRIC interpretations that have not yet become effective are expected to have a material impact on the Group.

Formats
The format prescribed in the Swedish Annual Accounts Act is used for the income statement and balance sheet. The statement of changes in equity is presented in the format prescribed in IAS 1 *Presentation of Financial Statements* but must contain the columns indicated in the Annual Accounts Act.

Segment reporting
Cantargia's chief operating decision maker is the company's Chief Executive Officer (CEO), as it is primarily he who is responsible for the allocation of resources and evaluation of results. The CEO receives reports containing financial information for the company as a whole. Cantargia has not yet commercialised any of the development projects in which it is engaged and the company is not yet generating and income. All activities of Cantargia are considered to constitute a single segment.

Intangible assets

Research and development costs
Cantargia is a research-based biotech company that is engaged in research and development of antibody-based therapy for serious diseases. All expenditure directly attributable to the development and testing of identifiable and unique products which are controlled by Cantargia is accounted for as an intangible asset when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use,
- the company intends to complete the product for use or sale,
- there is reason to expect that the company will be able to use or sell the product,
- it can be shown that the product will generate probable future economic benefits,
- adequate technical, economic and other resources are available to complete the development of and use or sell the product, and
- the costs attributable to the product during its development can be reliably measured.

The overall risk in ongoing development projects is high. The risk includes safety and efficacy risks that can arise in clinical studies, regulatory risks related to applications and approval for clinical studies and marketing authorisation, as well as IP risks related to approval of patent applications and the maintenance of patents. All development work is therefore deemed to be research, as the work does not meet the criteria listed below. As at 31 December 2017 no development costs had been recognised as intangible assets in the balance sheet, as it was not considered that all of the above criteria for capitalisation had been met for any of the development projects in which the company is engaged.

Research expenditure is expensed as incurred.

Capitalised development costs are recognised as intangible assets and amortised from the date when the asset is ready for use.

Impairment of intangible assets
Intangible assets which are not ready for use (capitalised development costs) are not amortised but are tested annually for impairment. However, no capitalised development costs are currently recognised in Cantargia's balance sheet.

Leases
Cantargia is a lessee only under operating leases for office premises.

Leases in which a significant share of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made during the lease term (after deducting for any incentives from the lessor) are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Foreign currency

Transactions in foreign currency are translated to the functional currency at the exchange rates applying at the transaction date or the date when the items were restated. Foreign exchange gains and losses are recognised in the statement of comprehensive income in other operating expenses, foreign exchange differences trade payables, and in net financial income/expense, foreign exchange differences currency accounts.

Financial assets and liabilities

Recognition and derecognition in the balance sheet

A financial asset or financial liability is recognised in the balance sheet when the company becomes a party to the contractual terms and conditions of the instrument. A financial asset is derecognised in the balance sheet when the contractual right to the cash flow from the asset expires or is settled. The same applies when the risks and benefits of ownership of the asset have essentially been transferred to another party and the company no longer has control over the financial asset. A financial liability is derecognised in the balance sheet when the contractual obligation is fulfilled or extinguished.

Measurement of financial instruments

Cantargia applies the exemption in RFR 2 under which IAS 39 *Financial Instruments: Recognition and Measurement* is not applied for recognition and measurement of financial instruments. Instead, cost is applied in accordance with the Annual Accounts Act.

Financial assets are initially measured at cost including any transaction costs directly attributable to the acquisition of the asset.

After initial recognition, current financial assets are measured at the lower of cost and net realisable value at the balance sheet date.

Trade receivables and other receivables classified as current assets are measured individually at the amounts expected to be paid.

Interest-bearing financial assets are measured at amortised cost using the effective interest method.

Measurement of financial liabilities

Short-term trade payables are recognised at cost.

Employee benefits

Retirement benefit obligations

Cantargia has both defined contribution and defined benefit pension plans. Defined contribution pension plans are post-employment benefit plans under which the company pays fixed contributions into a separate legal entity. Cantargia has no legal or constructive obligations to pay further contributions if this legal entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions are recognised as staff costs when they fall due.

Cantargia’s defined benefit pension plans consist of the ITP 2 plan’s defined benefit pension obligations. The ITP 2 plan’s defined benefit pension obligations for retirement and family pensions are secured through an insurance policy with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10 *Recognition of the ITP 2 Plan* that is funded through an insurance policy with Alecta, this is a defined benefit plan covering several employers. For the financial year 2017 the company has not had access to information that would enable it to account for its proportionate share of the plan’s obligations, assets and expenses. It has therefore not been possible to recognise the plan as a defined benefit plan. The ITP 2 pension plan secured through an insurance policy with Alecta is therefore accounted for as a defined contribution plan. The premium for defined benefit retirement and family pensions is calculated individually and depends on factors such as salary, previously earned pension and expected remaining period of service. The collective funding ratio is defined as the market value of Alecta's assets as a percentage of its commitments to policyholders calculated using Alecta's actuarial methods and assumptions, which do not comply with IAS 19. The collective funding ratio may normally varies within a range of 125 and 155 per cent. If Alecta's collective funding ratio were to fall below 125 per cent or exceed 155 per cent, it would be necessary to take measures that will enable the ratio return to the normal range. In case of a low funding ratio, one measure that can be taken is to raise the agreed price for new policies and the expansion of existing benefits. If the funding ratio is high, premiums can be reduced. At the end of the financial year 2017 Alecta's surplus, as defined by the collective funding ratio, was 154 per cent (2016: 149 per cent) on a preliminary basis.

In addition to the above, Cantargia has made pension promises to two employees and in connection therewith purchased endowment policies which have been posted as collateral for the employees' pensions. RFR 2 does not indicate how pension obligations that are secured through an endowment policy, or "direct pension," should be recognised. Companies therefore need to rely on IAS 19 for guidance on how to account for these obligations. Under IAS 19, a pension plan should be classified based on the economic substance of the plan. Under the concluded salary exchange agreements, Cantargia's direct pension obligation is limited to paying defined premiums to the insurance company. Cantargia does not bear any risk related to the change in value of the endowment policy, as this risk is borne by the employee. In accordance with RFR 2/IAS 19, the pension is therefore classified and accounted for as a defined contribution pension plan.

Short-term benefits
Short-term benefits are employee benefits which are payable within twelve months of the balance sheet date in the year in which the employee earned the benefit, with the exception of post-employment benefits and termination benefits.

Short-term benefits include
1. salaries, social security contributions and other payroll costs,
2. paid short-term leave such as paid holiday and paid sick leave,
3. bonuses, and
4. non-monetary benefits such as health care for current employees.

Accounting treatment – paid short-term leave
Short-term benefits for paid leave that can be saved should be accounted for as an expense and current liability when the employees have performed the services which entitle them to future paid leave.

Short-term benefits for paid leave that are not saved should be recognised as an expense when the leave is taken.

Accounting treatment – bonus plans
The expected expense for profit sharing and bonuses should be recognised only if
1. the company has a legal or constructive obligation as a result of past events, and
2. the amount of the obligation can be reliably estimated.

Tax
The tax on the profit for the year in the income statement consists of current tax and deferred tax. Current tax is calculated on the taxable profit the period at the applicable tax rate. The actual tax expense is calculated based on the tax rules that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences. However, deferred tax attributable to untaxed reserves is accounted for separately, as untaxed reserves are recognised as a separate item in the balance sheet. Deferred tax liabilities are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be wholly or partially offset.

Deferred tax is calculated by applying tax rates (and laws) which have been adopted or announced at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Income

Interest income
Interest income is recognised by applying the effective interest method.

Cash and bank balances, and the statement of cash flows
The statement of cash flows is prepared using the indirect method. The reported cash flow only includes transactions involving incoming or outgoing payments. The company classifies cash, available deposits with banks and other credit institutions as cash and cash equivalents.

Share capital
Ordinary shares are classified as equity.

Transaction costs which are directly attributable to the issuance of new shares or options are recognised, net of tax, in equity less a deduction from the proceeds of the issue.

Note 2 Effects of the transition to RFR 2 *Financial Reporting for Legal Entities*
The interim report for the first quarter of 2018 has been prepared in accordance with RFR 2.

The accounting policies presented in Note 1 have been applied in preparing the financial statements as at 31 March 2018 and for the comparative information presented as at 31 March 2017. For comparative information per January 1, 2017 and full year 2017, reference is made to the year-end report 2017.

The preparation of financial statements in accordance with RFR 2 has been effected in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The change of accounting policy to RFR 2 must be applied retrospectively. This means that the opening balance of each affected component of equity should be adjusted for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if RFR 2 had always been applied.

In preparing the balance sheet as at 31 March 2017 and the income statement and statement of cash flows for the first quarter of 2017 in accordance with RFR 2, adjustments were made to amounts which in previous interim reports had been reported in accordance with General Recommendation BFNAR 2012:1 *Annual Accounts and Consolidated Financial Statements* (K3) of the Swedish Accounting Standards Board. An explanation of how the transition from the previously applied accounting policies to RFR 2 has affected Cantargia's results and financial position is presented in the following tables and the related notes.

Reconciliation between previously applied accounting policies and RFR 2
The following tables show, for each period, the reconciliation between the previously applied accounting policies and RFR 2 for the balance sheet and equity as well as total comprehensive income.

RECONCILIATION OF BALANCE SHEET AND EQUITY

		31 March 2017		
kSEK	Note	According to previous accounting principles	Total effect of transition to RFR 2	According to RFR 2
ASSETS				
Immateriella anläggningstillgångar				
Concessions, patents, licences and trademarks etc.	a)	8 319	-8 319	-
Financial assets				
Other securities held as non-current asset	c)	3 825	-868	2 957
Total current assets		85 247	-	85 247
Total assets		**97 391**	**-9 187**	**88 204**
EQUITY AND LIABILITIES				
Equity				
Restricted equity				
Share capital		2 566	-	2 566
Reserve for development costs	b)	4 037	-4 037	-
Non-restricted equity				
Share premium account		184 050	-	184 050
Retained earnings	a), b)	-86 547	-3 055	-89 602
Loss for the period	a)	-17 175	-1 227	-18 402
Total Equity		**86 931**	**-8 319**	**78 612**
Long-term liablities				
Provisions	c)	868	-868	-
Total short-term liabilities		**9 592**	**-**	**9 592**
Total Equity and Liabilities		**97 391**	**-9 187**	**88 204**

RECONCILIATION OF COMPREHENSIVE INCOME

kSEK	Note	1 January 2017 - 31 March 2017 According to previous accounting principles	Total effect of transition to RFR 2	According to RFR 2
Net sales		-	-	-
Other operating income		321	-	321
Project costs	a)	-14 433	-1 227	-15 660
Other external expenses		-1 229	-	-1 229
Personnel expenses		-1 847	-	-1 847
Other operating expenses		-	-	-
Operating profit		**-17 188**	**-1 227**	**-18 415**
Interest income and similar items		16	-	16
Interest expense and similar items		-3	-	-3
Net financial items		**13**	**-**	**13**
Loss for the period		**-17 175**	**-1 227**	**-18 402**
Total comprehensive income		**-17 175**	**-1 227**	**-18 402**

a) Intangible assets – adjustment of previously capitalised patent costs
Under the previously applied accounting policies, Cantargia capitalised costs for patent agents and the registration of patents. In connection with the transition to RFR 2, Cantargia analysed the previously capitalised patent costs and concluded that the criteria for capitalisation of development costs in IAS 38 *Intangible Assets* had not been met. Cantargia has therefore adjusted this by derecognising all previously capitalised patent costs as at 31 March 2017 (kSEK 8,319). Increased project costs had a negative impact of kSEK 1,227 on comprehensive income for the first quarter.

b) Adjustment of reserve for development costs
As Cantargia has adjusted all previously capitalised patent costs in connection with the transition to RFR 2, the previously recognised transfers to the reserve for development costs in equity have also been adjusted. The full amount previously recognised in reserve for development costs, kSEK 4,037, has been transferred to the item retained earnings as at 31 March 2017. The net effect of the reclassification in equity is kSEK 0.

c) Other securities held as non-current assets and provisions – adjustment for defined contribution pension plans
Cantargia has made pension promises to two employees and in connection therewith purchased endowment policies which have been posted as collateral for the employees' pensions. Under the previously applied accounting policies, the endowment policies and the liability were presented on a gross basis in the balance sheet. The asset was measured at cost and the liability was measured at the same amount as the asset. The pension solution constitutes a defined contribution plan and should, in accordance with IAS 19, be accounted for by charging to expense the amount that is paid into the pension plan in each period. Cantargia has adjusted this by derecognising the asset (the endowment policy) and the liability (the pension obligation) in the balance sheet. The net effect of this adjustment is kSEK 0, both in equity as at 31 March 2017 and in comprehensive income for the first quarter of 2017.

Reclassifications in the statement of cash flows for the first quarter of 2017

d) Patent costs – reclassification from investment to overhead expense.
As a result of the adjustment of previously capitalised patent costs, a reclassification has been made in the statement of cash flows for the first quarter of 2017, as described below.

e) Short-term investments – not included in cash and cash equivalents
In accordance with RFR 2 (IFRS), a definition of cash and cash equivalents in which short-term investments are not included is applied. This means that the opening balance of cash and cash equivalents at 1 January 2017 has been adjusted to kSEK 37,832. Changes in short-term investments are presented in investing activities, which were kSEK 11,063 for the first quarter of 2017.

Only those rows which have been reclassified are presented below.

CASH FLOW

kSEK	Note	1 January 2017 – 31 March 2017 According to previous accounting principles	Total effect of transition to RFR 2	According to RFR 2
Operating income	d)	-17 188	-1 227	-18 415
Cash flow from operating activities before changes in operating capital		-17 175	-1 227	-18 402
Cash flow from operating activities		-16 562	-1 227	-17 789
Acquisition of consessions, patents, licences, etc.	d)	-1 227	1 227	-
Change in other short-term investments	e)	-	-11 063	-11 063
Cash flow from investing activities		-1 522	-9 836	-11 358
Change in cash and cash equivalents		48 895	-11 063	37 832
Cash and cash equivalents at beginning of year		34 841	-8 937	25 904
Cash and cash equivalents at end of year *)	e)	83 736		63 736

*) The company's cash and cash equivalents consist of cash and disposable balances with banks and other credit institutions.

Note 3 Critical judgements and estimates
The preparation of financial statements and application of accounting policies are often based on judgements, estimates and assumptions made by management which are deemed reasonable at the time when they are made. The estimates and assumptions applied are based on historical experience and other factors which are deemed reasonable under current circumstances. The results of these are then used to determine carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual outcomes may differ from these estimates and assessments.

Estimates and assumptions are reviewed regularly. Any changes are recognised in the period in which the change is made if the change affects only that period, or in the period in which the change is made and future periods if the change affects both the current and future periods.

The most critical judgement in Cantargia's financial reporting refers to the date of capitalisation of development costs. Based on the accounting policies that are presented in Note 1, all development activities in which Cantargia is engaged are currently classified as research, for which costs should not be capitalised. The achievement of positive results in phase III clinical trials is the earliest point at which the criteria for capitalisation can be considered to be met.

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